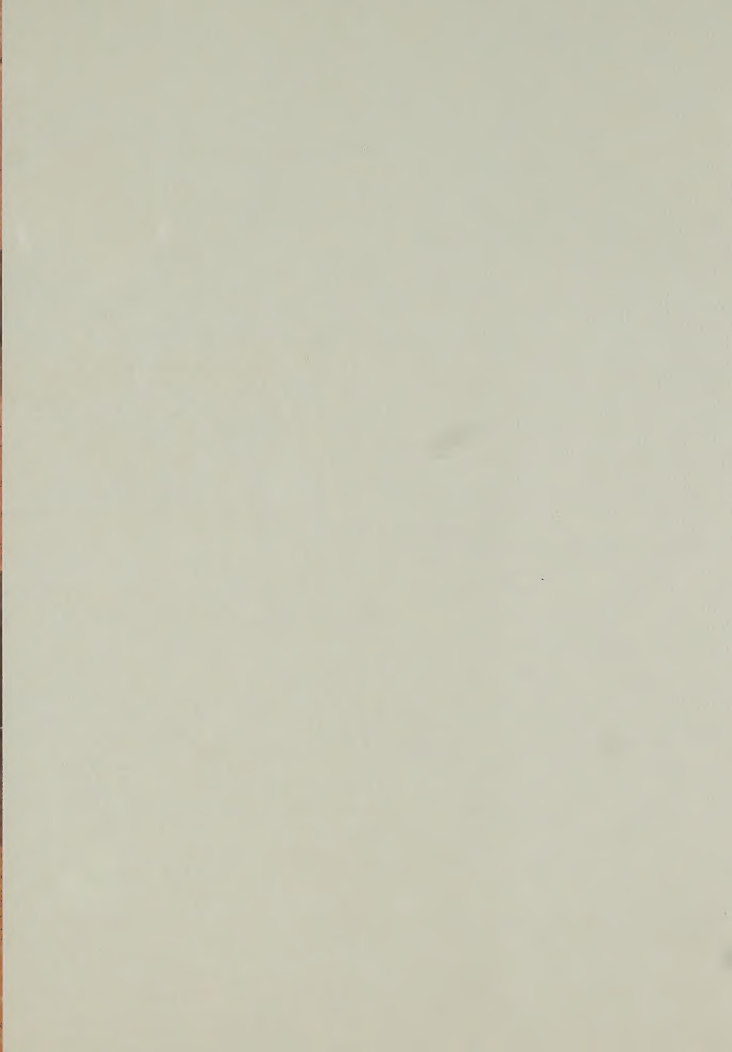


**Whonnock Lumber Company Limited • 1970 Annual Report**







# Whonnock Lumber Company Limited

## Annual Meeting

The Annual Meeting of the  
Company will be held on  
Wednesday, March 17, 1971  
at 10:30 a.m. in the Hotel Georgia,  
801 West Georgia Street,  
Vancouver, B.C.

## Officers

H. Kneteman, President  
Herbert L. Henri, Vice-President  
Joseph E. Villiers, Secretary-Treasurer

## Directors

Clayton B. Delbridge, Vancouver, B.C.  
C. A. Johnson, Vancouver, B.C.  
H. Kneteman, Vancouver, B.C.  
T. Evans Lougheed, Penticton, B.C.  
R. C. McColl, Vancouver, B.C.

## Solicitors

Russell & DuMoulin

## Auditors

Winspear, Higgins, Stevenson & Doane

## Transfer Agent

The Canada Trust Company

## Head Office

Whonnock, B.C.

## Registered Office

17th Floor - 1075 West Georgia Street,  
Vancouver 5, B.C.

## Directors' Report to the Shareholders

We submit to you the annual report of Whonnock Lumber Company Limited and its subsidiary for the year ended November 30, 1970. Consolidated net income was \$493,901, or \$1.06 per share, compared to \$723,299, or \$1.56 per share, for the previous year.

Operating income amounted to \$1,280,374, a decrease of \$614,426 from 1969. \$293,760 was allocated to the employees' deferred profit sharing plan. This is the seventh consecutive year the company has made the maximum allowable contribution under the Income Tax Act.

Income before income and logging taxes amounted to \$1,022,952 as opposed to \$1,577,461 in 1969. Equity per share was \$6.75 in 1970 and \$5.68 in 1969. During 1970 the working capital reached \$1,080,153, an increase of \$527,584 over 1969.

As the employees are benefiting from their efforts through substantial annual contributions to their profit sharing plan, the directors felt that steps should be taken to ensure a fair participation in the success of the company by its public shareholders. Accordingly, the board has declared a dividend of 75c per share on the Class "A" shares for the 1970-71 fiscal period, payable in quarterly instalments. The board has thus devised a method to properly reward the employee force for their efforts and the public for their financial support.

### OPERATIONS

A series of work stoppages in supporting industries interrupted log, lumber and pulp chip deliveries resulting in higher costs to the company. Union negotiations affecting Whonnock's operations were conducted in association with other employers. Although protracted and difficult, a two-year settlement was concluded without any work stoppages but at a high cost.

The dollar return on foreign sales was substantially reduced when the value of the Canadian dollar was allowed to fluctuate at market level. These and other problems, coupled with a soft lumber market, reduced the company's sales income in 1970. As in previous years the major markets for our products were offshore for lumber and the United States for shakes and shingles. When measured against the performance of the lumber industry in general the company had a creditable year.

The sawmill division, aided by reduced log costs and higher chip prices, was the major contributor to income and profits. Sawmill production decreased from 64.5 million board feet in 1969 to 62 million board feet due primarily to the input of smaller logs as a result of closer utilization of the timber resources.

The shake and shingle mill contribution to the operating profit of the company dropped from 20% in 1969 to only 5% in 1970. This industry, with its volatile markets, suffered severe downward price fluctuations in 1970. The upward valuation of the free floating Canadian dollar contributed substantially to the reduced revenue of this division.

The logging division was caught in the cost-price squeeze during 1970. Market value of production was down by an average of \$10 per thousand board feet, while labour and supply costs increased substantially. Reduced log values were partially off-set by stumpage reductions under the Provincial Government's sliding scale policy.

The company's annual allowable cut, based on intermediate utilization standards, is 38 million board feet, an increase of 2 million board feet over 1969. Non-quota timber holdings remain at 80 million board feet with an annual liquidation rate of 10 million board feet. The remaining annual volume logged was removed from non-company owned or controlled areas. Logging production was 52 million board feet compared to 44 million board feet in 1969.

hemlock lumber?  
+

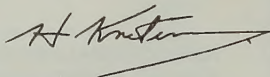
## OUTLOOK

V-S.

From all indications it appears that the long awaited increase in United States housing starts is now beginning to materialize. Since 80% of the company's shake and shingle production is directed to this market, some increase in revenue is indicated. Whonnock's lumber production, however, is sold mainly in off-shore markets which are still generally sluggish and only a small increase in market consumption is foreseeable for the first half of 1971.

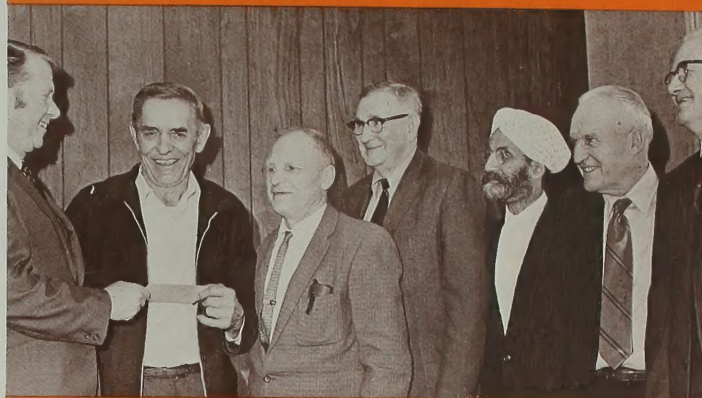
We wish to take this opportunity to thank the company employees for their dedication and co-operation during the past year.

Submitted on behalf of the Board,



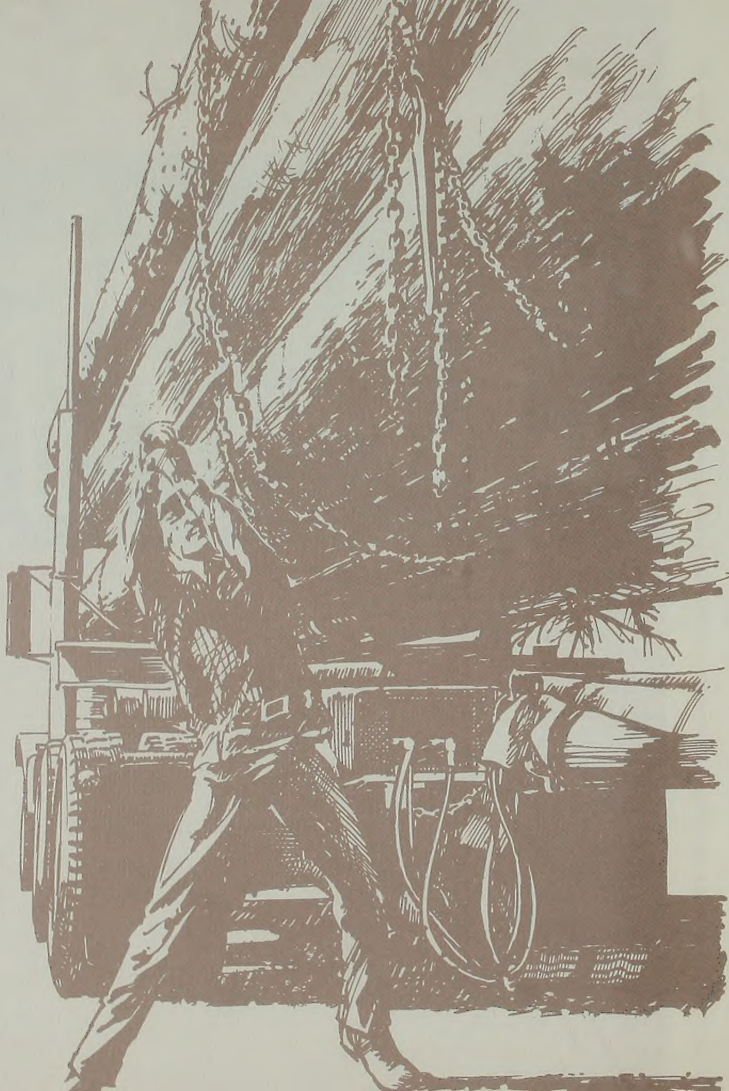
H. Kneteman,  
President.

Whonnock, B.C.  
January 22, 1971.



98 years of service to the company  
ends as employees receive their  
retirement payments out of the  
deferred profit sharing plan.





## Auditors' Report

January 8, 1971.

To the Shareholders of  
Whonnock Lumber Company Limited

We have examined the consolidated balance sheet of Whonnock Lumber Company Limited as at November 30, 1970 and the consolidated statements of income and expense, retaining earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1970 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Wingpear, Higgins, Stevenson and Doane*

Chartered Accountants.

## Whonnock Lumber Company Limited

	Assets	
	1970	1969
<b>Current assets</b>		
Cash .....	\$ 796	\$ 223
Trade and other accounts receivable .....	598,524	1,140,911
Inventories - at lower of cost or net realizable value .....	1,769,059	1,829,149
Prepaid expenses .....	12,099	15,650
	<u>2,380,478</u>	<u>2,985,933</u>
<b>Investments - at cost</b> .....	70,979	70,979
<b>Fixed assets</b>		
Property, plant and equipment - at cost (Note 1) .....	1,959,163	1,802,314
Less: Accumulated depreciation .....	1,053,675	866,209
	<u>905,488</u>	<u>936,105</u>
<b>Timber and logging roads</b>		
Timber - at cost .....	1,221,334	1,068,084
Less: Accumulated depletion .....	264,240	161,434
	<u>957,094</u>	<u>906,650</u>
Logging roads at cost less amortization .....	275,074	313,142
	<u>1,232,168</u>	<u>1,219,792</u>
<b>Timber sale deposits</b> .....	48,529	173,904
	<u>\$ 4,637,642</u>	<u>\$ 5,386,713</u>

Approved on behalf of the Board

*[Signature]*  
Director

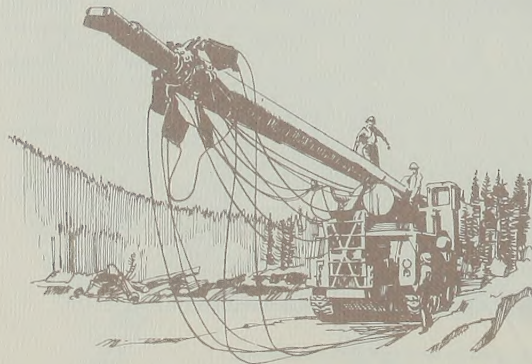
*[Signature]*  
Director



## Consolidated Statement of Retained Earnings

Year ended November 30, 1970  
(with comparative figures)

	1970	1969
Balance at beginning of year as previously reported	\$ 1,996,192	\$ 1,463,055
Less: Adjustment of prior years' deferred income taxes	—	107,885
Balance at beginning of year as restated	1,996,192	1,355,170
Add: Net income for the year	493,901	723,299
	<u>2,490,093</u>	<u>2,078,469</u>
Less: Prior years' income and logging taxes and interest thereon	—	80,341
Life insurance premiums	—	1,936
	<u>—</u>	<u>82,277</u>
Balance at end of year	<u>\$ 2,490,093</u>	<u>\$ 1,996,192</u>



## Consolidated Statement of Income and Expense

Year ended November 30, 1970  
(with comparative figures)

	1970	1969
Sales and other operating revenue	\$10,124,967	\$11,062,519
Production, selling and administrative expenses	8,279,963	8,671,558
Remuneration of directors and senior officers	143,508	113,492
Depreciation, depletion and amortization (Note 5)	421,122	382,669
	<u>8,844,593</u>	<u>9,167,719</u>
Operating income	1,280,374	1,894,800
Dividends from investments	5,091	6,175
Gain on disposal of fixed assets	52,171	6,595
	<u>1,337,636</u>	<u>1,907,570</u>
Interest on long-term debt	20,924	29,181
Income before contribution to employees' deferred profit sharing plan and income and logging taxes	1,316,712	1,878,389
Contribution to employees' deferred profit sharing plan	293,760	300,928
Net income before income and logging taxes	<u>1,022,952</u>	<u>1,577,461</u>
Income and logging taxes		
Current	526,711	840,509
Deferred (Note 3)	2,340	13,653
	<u>529,051</u>	<u>854,162</u>
Net income for the year	<u>\$ 493,901</u>	<u>\$ 723,299</u>
Net income per share	<u>\$ 1.06</u>	<u>\$ 1.56</u>

## Consolidated Statement of Source and Application of Working Capital

Year ended November 30, 1970  
(with comparative figures)

	1970	1969
<b>Source of working capital</b>		
Net income	\$ 493,901	\$ 723,299
Add: Charges less credit not requiring an outlay of working capital		
Depreciation, depletion and amortization	421,122	382,669
Deferred taxes	2,340	13,653
Employee bonuses paid by issue of 300 common shares (1969, 300 shares)	3,825	2,700
Gain on disposal of fixed assets	(52,171)	(6,595)
	<u>869,017</u>	<u>1,115,726</u>
Proceeds from disposals		
Fixed assets	59,234	20,602
Timber sale deposits	125,375	37,296
Investments	—	18,473
	<u>1,053,626</u>	<u>1,192,097</u>
<b>Application of working capital</b>		
Purchase of fixed assets, timber and timber sale deposits	330,125	749,480
Purchase and construction of logging roads	79,820	161,099
Long-term debt paid and currently maturing	116,097	200,802
Prior years' income and logging taxes and interest thereon	—	80,341
Life insurance premiums	—	1,936
	<u>526,042</u>	<u>1,193,658</u>
Increase (decrease) in working capital	527,584	(1,561)
Working capital at beginning of year	552,569	554,130
Working capital at end of year	<u>\$ 1,080,153</u>	<u>\$ 552,569</u>
<b>Working capital represented by:</b>		
Current assets	\$ 2,380,478	\$ 2,985,933
Current liabilities	1,300,325	2,433,364
	<u>\$ 1,080,153</u>	<u>\$ 552,569</u>

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	<u>\$ 1,080,153</u>	<u>\$ 552,569</u>

## Notes to the Consolidated Financial Statements

November 30, 1970

### 1. Principles of consolidation

The accounts of Whonnock Lumber Company Limited are consolidated with the accounts of its wholly owned subsidiary, Wolco Marine Ltd. The excess of the cost of shares in the subsidiary over their net book value at the date of acquisition, amounting to \$148,065, is added to the cost of the property, plant and equipment owned by the subsidiary as it was deemed to be attributable thereto.

### 2. Long-term debt - secured

	1970	1969
7 and 7½% asset purchase agreements .....	\$ 166,526	\$ 287,894
8% loan from RoyNat Ltd. ....	32,850	47,450
	<u>199,376</u>	<u>335,344</u>
Less: Current portion .....	116,200	136,071
	<u>\$ 83,176</u>	<u>\$ 199,273</u>

### 3. Deferred income taxes

Deferred income taxes result from claiming capital cost allowance for income tax purposes in excess of depreciation, depletion and amortization recorded in the accounts. The accumulated amount of such deferrals is applicable to those future periods in which capital cost allowance claimed is less than recorded depreciation, depletion and amortization.

### 4. Share capital

During the year the company altered and increased its authorized share capital from 502,000 no par value common shares to 2,000,000 no par value common shares consisting of 1,535,998 Class "A" common shares and 464,002 Class "B" common shares.

The 464,002 common shares that were issued and outstanding at the date of alteration were accordingly converted to 464,002 Class "B" common shares. The Class "B" common shares are convertible into Class "A" common shares at any time at the option of the holder, on the basis of one Class "A" common share for one Class "B" common share. At the balance sheet date no conversion privileges had been exercised.

The Class "A" common shares are preferred as to a non-cumulative dividend not to exceed 75 cents per annum. Any further dividends in any year shall be paid in equal amounts per share on all Class "A" and Class "B" common shares.



## Notes to the Consolidated Financial Statements

(continued)

### 5. Depreciation, depletion and amortization

Depreciation of fixed assets and amortization of logging roads are computed on the declining balance basis at the maximum rates allowable under income tax regulations with the exception of depreciation of barges and other vessels which is computed on a straight line basis. Depletion is computed on the basis of timber cut.

### 6. Logging taxes

The company was re-assessed for logging taxes for the years 1964 to 1968, wherein the contributions to the employees' deferred profit sharing plan were disallowed as a deduction in arriving at income for logging tax purposes. The net amount of additional taxes recorded in the accounts in previous years is approximately \$84,500. The company successfully appealed the re-assessments for 1964 to 1967 to the Supreme Court of British Columbia. A counter appeal has, however, been filed, but has not been heard.

In computing income in 1969 and 1970 for income and logging tax purposes, the contributions for these years to the employees' deferred profit sharing plan have been deducted. If the company is assessed on a basis similar to that for 1964 to 1968 the net increase in taxes will be approximately \$23,500 for each of the two years.

### 7. Subsequent events

On December 14, 1970 the company declared a dividend of 75 cents per Class "A" common share. The dividend is payable in quarterly instalments of 18.75 cents to the shareholders of record February 1, May 1, August 1 and November 1, 1971.







